

U S WEST, Inc.
Suite 700
1020 Nineteenth Street, NW
Washington, DC 20036
202 429-3135
FAX 202 296-5157

DOCKET FILE COPY ORIGINAL

EX PARTE OR LATE FILED

USWEST

G. Michael Crumling
Executive Director-
Federal Regulatory

August 16, 1996

Ex Parte Presentation

RECEIVED

AUG 16 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

RE: Allocation of Costs Associated with Local Exchange
Carrier Provision of Video Programming Services
CC Docket 96-112

Dear Mr. Caton:

On August 16, 1996, U S WEST, Inc. ("U S WEST") held a meeting at the Federal Communications Commission concerning the above-referenced proceeding. The meeting was attended on behalf of the FCC by Andrew Multz of the Accounting and Audits Division. In attendance at the meeting on behalf of U S WEST were Mike Crumling, Executive Director - Federal Regulatory and Bill Johnston, Executive Director - Markets and Interconnection. Attached hereto are two copies of a document that was left with the Mr. Multz during the meeting.

During the meeting the U S WEST representatives discussed the attached documents and the impact of the fixed 50/50 cost allocation methodology vs. U S WEST's subscriber based 50/50 methodology on the viability of U S WEST's entry into the video market. We also discussed the disincentives associated with the imposition of an exogenous adjustment.

In accordance with Commission Rule 1.1206(a)(1), two copies of the document left with Mr. Multz accompany this notice of presentation and are being filed with you for inclusion in the public record.

No. of Copies rec'd 041
List A B C D E

Mr. William Caton
August 16, 1996
Page two

Acknowledgment and date of receipt of this letter are requested. A copy of this transmittal letter is provided for this purpose. Please contact me if you have questions.

Sincerely,

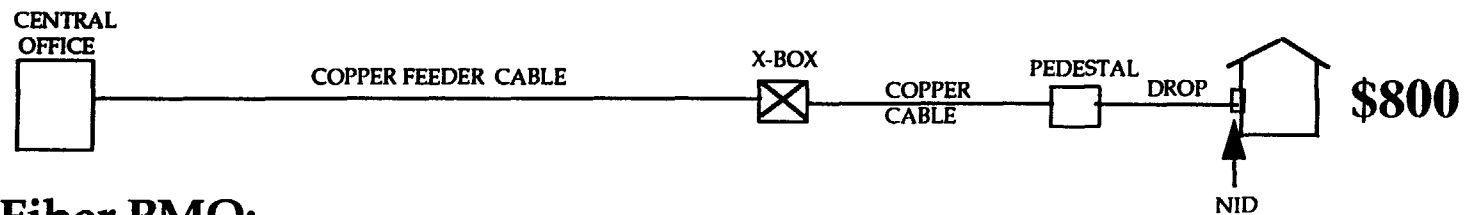
A handwritten signature in cursive script, appearing to read "M. Caton".

Attachment

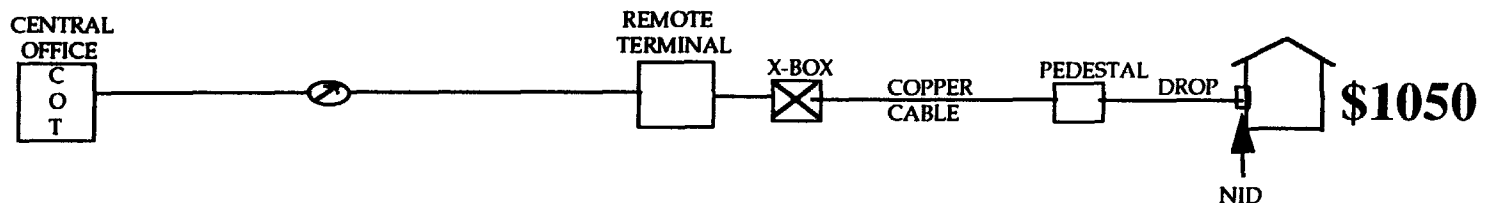
cc: Andrew Mulitz

Broadband Upgradable vs. Present Method of Operation (PMO) Architecture Comparisons

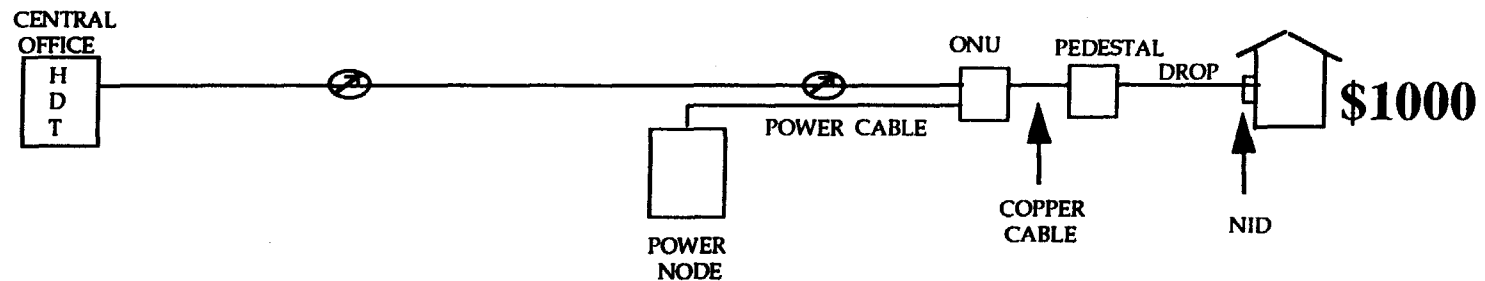
Copper PMO:



Fiber PMO:



Broadband Upgradable:



Broadband Upgradable Infrastructure vs. Present Method of Operation (PMO)

Hypothetical Cost Comparison

Cost per passing (buried new build and rehab):

<u>PMO</u>		<u>Broadband Upgradable</u>
<u>Copper Telephony</u>	<u>Fiber Based Telephony</u>	<u>Telephony</u>
\$800	\$1050	\$1000 total
		<u>-\$400 direct telephony</u>
		\$600 common cost

Cost Allocation Methodology Results

FCC Proposed Methodology:*

\$600 Common cost per passing
x 100K Passings
\$60M Total common cost
x 50% Fixed allocator
\$30M Common cost allocated to video
÷ 30K Subscribers (30% Penetration)
\$1000 Common cost per subscriber
allocated to video
+ \$465 Direct video cost per subscriber
\$1465 Total video cost per subscriber

\$1330 Total stand alone (overbuild) video cost per subscriber*

USW Proposed Methodology:*

\$600 Common cost per passing

x 50% Fixed allocator

\$300 Common cost per subscriber
allocated to video
+ \$465 Direct video cost per subscriber
\$765 Total video cost per subscriber

* assumes 100,000 passings @ 30% penetration

Potential Effects of Cost Allocation

If FCC suggested cost allocation methodology is adopted:

- ◆ USW unable to economically utilize integrated infrastructure for video services
- ◆ No integrated infrastructure, no economies of scope, no allocation
- ◆ No benefit to regulated ratepayer

If USW proposed cost allocation methodology is adopted:

- ◆ USW utilizes integrated infrastructure for video services
- ◆ Economies of scope realized
- ◆ Regulated ratepayer benefits

NORMAL PRICE CAP OPERATION
(\$ M)

	<u>Initial Rates</u>	<u>Apply Productivity Adjustment</u>	<u>Reduce Costs</u>	OR	<u>Increase Revenue thru new services</u>
Revenue	100	98	98		100
Expense	<u>90</u>	<u>90</u>	<u>88</u>		<u>90</u>
Income	10	8	10		10

SUPPOSE NEW SERVICE IS NON-REGULATED

	<u>Before Part 64 Allocation</u>		<u>After Part 64 Allocation</u>		<u>With Inappropriate Exogenous Adjustment</u>	
	Reg	NonReg	Reg	NonReg	Reg	NonReg
Revenue	98	2	98	2	96	2
Expense	<u>90</u>	<u>0</u>	<u>88.2</u>	<u>1.8</u>	<u>88.2</u>	<u>1.8</u>
Income	8	2	9.8	0.2	7.8	0.2
	10		10		8	
			Reg	NonReg	Reg	NonReg
			98	2	95	2
			<u>87.2</u>	<u>2.8</u>	<u>87.2</u>	<u>2.8</u>
			10.8	(0.8)	7.8	(0.8)
			10		7	

Part 64 Cost Over Allocation →
Exogenous Adjustment →

Exogenous adjustment creates a disincentive to develop new non regulated services.